

DEPARTMENT OF THE NAVY
Office of the Secretary
Washington, DC 20350-1000

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SECNAVINST 5200.34D
NIG-00
18 December 1991

SECNAV INSTRUCTION 5200.34D

From: Secretary of the Navy
To: All Ships and Stations (less Marine Corps field addressees not having Navy personnel attached)

Subj: MANAGEMENT OF AUDIT DECISION AND FOLLOWUP FUNCTIONS

Ref: (a) DOD Directive 7650.3 of 5 Sep 89 (NOTAL)
(b) DOD Directive 7640.2 of 12 Feb 88 (NOTAL)
(c) SECNAVINST 7510.9

Encl: (1) Semiannual Followup Status Report
(2) Audit Followup Procedures and Responsibilities for Findings and Recommendations
(3) Definitions
(4) Followup Procedures for Audit Organization Reports
(5) Audit Processes

1. Purpose

a. To assign responsibility and provide guidance, per reference (a), on the management of audit decision and followup on the findings and recommendations of audit reports published by Audit Organizations (AOs) within the Department of the Navy (DON).

b. To specify DON policy on the elimination of fraud, waste and abuse identified by AOs.

c. This instruction has been substantially revised and should be reviewed in its entirety.

2. Cancellation. SECNAVINST 5200.34C.

3. Applicability

a. The provisions of this instruction apply to the offices, commands, and activities of the

DON. Commanding officers of ships, aircraft squadrons, and Immediate Unit Commanders of the Operating Forces of the Navy and equivalent commands of the Operating Forces of the Marine Corps are exempt only from the reporting requirement established by enclosure (1) to this instruction.

b. The procedural and reporting provisions of enclosures (1) and (2) do not apply to contract audits conducted by the Defense Contract Audit Agency (DCAA). Followup policies and procedures for these audits are contained in reference (b) and the Navy Acquisition Procedures Supplement (NAPS), 15.874.

c. Reference (c) disestablished the Navy's Internal Review Program and allows the use of former internal review resources as local audit staffs or other organizations to maintain command economy, integrity and effectiveness.

4. Definitions. The terms used in this instruction are defined in enclosure (3).

5. Policy

a. The pursuit of integrity and efficiency, to eliminate fraud, waste and abuse, is a major objective of the DON. Action must be taken to correct and prevent recurrence of such deficiencies identified in reports of AOs.

b. Suspected fraudulent activities shall be reported to the commanding officer by the AO and shall be reviewed immediately. Where warranted, these cases shall be referred to the Naval Investigative Service Command (NISCOM). In the event that the commanding officer is alleged to have been involved in any suspected fraudulent activity(s), the matter shall be reported to and reviewed by the next higher level of command, i.e., if the commanding officer of an Echelon 5 activity is suspected of fraud, the matter is to be reported to his/her Echelon 3 or 4 superior.

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c. Additionally, management shall review findings of the AO for wasteful practices and promptly implement action to correct such practices, even though the action may not be specifically recommended by the AO.

d. Prompt, responsive and constructive corrective action shall be taken by the commanding officer/director of the audited activity on decided audit recommendations. When management does not concur with the auditor's estimate of monetary benefits, the management response must provide the basis for the nonconcurrence. The process for deciding disputed audit findings, recommendations and monetary benefits shall be well documented and the final decision will be a matter of written record and consistent with statutes, directives, and regulations. An effective and efficient followup system shall provide for a complete record of action taken on audit findings, recommendations and associated monetary benefits.

6. Responsibilities

a. The Under Secretary of the Navy (UNSECNAV) is responsible for the DON audit followup program to promote integrity and efficiency and to eliminate fraud, waste and abuse.

b. The Naval Inspector General (NAVINSGEN) is accountable to UNSECNAV for the overall execution of this responsibility and the oversight of all DON Followup Systems for Naval Audit Service (NAVAUDSVC) audits, General Accounting Office (GAO) audits, Inspector General, Department of Defense (IG, DOD) audits, DCAA contract audits, Non-Appropriated Fund Instrumentality (NAFI) audits, and local audits. However, except for NAVAUDSVC audit followup and oversight, oversight of all other DON audit followup systems will be exercised by periodic reviews, review of correspondence, and through the Naval Command Inspection Program and liaison with the IG, DOD audit followup division. NAVINSGEN may delegate selected oversight, followup management and reporting responsibilities to

cognizant DON offices in addition to those outlined below. The cognizant DON office will issue detailed departmental implementing guidance for audit decision and followup. NAVINSGEN will consolidate the DON Semiannual Followup Status Report for submission to the IG, DOD through UNSECNAV.

c. The Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A)) is accountable to UNSECNAV for specifically overseeing the Contract Audit Followup System for DCAA audits. ASN (RD&A) will coordinate and compile DON semiannual contract audit followup status reports for submission to the IG, DOD. ASN (RD&A) will issue guidance for audit followup on contract audits. The DON focal point for contract audit followup is ASN (RD&A) (Acquisition, Policy, Integrity and Accountability - Procurement Policy (APIA-PP)).

d. The Comptroller of the Navy (NAVCOMPT) is accountable to UNSECNAV for managing the DON Audit Followup System for GAO and IG, DOD audits. NAVCOMPT will issue guidance for audit followup on GAO and IG, DOD audits. The DON focal point for GAO and IG, DOD audit followup is NAVCOMPT (NCB-53).

e. The Auditor General of the Navy (AUDGENAV) is responsible for maintaining the Naval Audit Followup Data Base which includes the current status of all findings, recommendations and estimates of potential monetary benefits developed by the NAVAUDSVC. DON focal points (i.e. Chief of Naval Operations (CNO), Commandant of the Marine Corps (CMC), Chief of Naval Research (CNR), and designated Echelon 2 commands) charged with responding to NAVAUDSVC audits are responsible for naval audit followup and providing status reports to AUDGENAV in order to update the Naval Audit Followup Data Base. AUDGENAV provides naval audit data for the DON Semiannual Followup Status Report for UNSECNAV approval and submission to the IG, DOD. Procedures for preparation of the DON

Semiannual Followup Status Report are contained in enclosure (1). Responsibilities of focal points are contained in enclosure (2).

f. The Chief, Bureau of Naval Personnel (PERS-65) is responsible for NAFI followup for fiscal oversight and management reviews performed by PERS-65 fiscal oversight staff. The Commander, Naval Supply Systems Command (COMNAVSUPSYSCOM) is responsible for NAFI audit followup for Navy lodges and exchanges. CMC (Code (FDR)) is responsible for Marine Corps NAFI audit followup.

g. Individual commanding officers with local audit staffs are responsible for followup on audits performed by their staff and Certified Public Accountant (CPA) firms under contract to audit their activities. The NAVAUDSVC has oversight responsibility for these local and CPA audits. Commanding officers should provide status reports concerning these audits to the NAV-AUDSVC following guidance in enclosure (4).

h. DON organizations have specific responsibilities assigned for the findings, recommendations and potential monetary benefits in their reports. These are addressed in enclosure (2).

i. DON focal points will be established within the organizations of NAVCOMPT, CNO, CMC, and CNR to carry out the specific decision and followup responsibilities assigned by enclosure (2) per the followup procedures specified in enclosure (4) as they apply to their DON organizational responsibilities. CNO and CMC will designate appropriate subordinate commands requiring focal points.

j. Responsibilities are depicted in the graphic presentations of DON Audit Processes shown in enclosure (5).

k. Audit decision, implementation and followup is a key component to any position which involves managing programs that are audited. Therefore, commands shall ensure that civilian performance appraisals and officer fitness reports of appropriate officials reflect

effectiveness in deciding, implementing and following up of audit recommendations.

(1) Performance and effectiveness shall be measured and rated with respect to all types of audits, both internal and external to the DON.

(2) Accountability in this area includes not only the personnel directly responsible for completing the agreed-upon actions, but all managers and supervisors in the chain of command.

7. **Action.** Applicable parts of the semi-annual followup status report will be prepared by commands identified in enclosure (1) for the 6-month period ending 31 March and 30 September. The report will be forwarded to the NAVINSGEN 2 weeks after the close of each 6-month period.

8. **Report.** The DON Semiannual Followup Status Report is assigned Report Control Symbol DD-IG(SA)1574(5200) and is approved for 3 years from the date of *OF TRANSMITTAL 1*.

J. DANIEL HOWARD
Under Secretary of the Navy

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18 DEC 1991

SEMIANNUAL FOLLOWUP STATUS REPORT1. General

a. Semiannual followup status reports will be submitted to inform commanders of the status of actions taken to correct reported deficiencies. These reports will show the status of corrective action on audit reports issued by AOs. Collection of such information will be the responsibility of the designated focal points in headquarters commands.

b. A sample followup status report is attached as Exhibit A. It will be used to indicate the status of action on audit report recommendations from AOs. Information on reporting the status of contract audit reports is provided in separate policy guidance.

c. Management must explicitly agree in writing to the realized monetary benefits reported as closed. If such an agreement has not been obtained for any portion of the open monetary benefits associated with a recommendation for which action is otherwise complete, these documented benefits must either be entirely deleted from the followup status report, or continue to be reported as open, and the issue addressed following guidance in enclosure (2) paragraph 1b3. The related recommendation, finding and report will remain open in the followup tracking and reporting system until the realized monetary benefits have been determined.

d. Monetary benefits reported as open in Part IV of the Followup Status Report must be supported by explicit written concurrence from management. Amounts not explicitly concurred in should be excluded from the report. Amounts that are undecided should be excluded from Part IV, but included in Part II of the report.

2. Preparation and Distribution

a. Each headquarters command focal point will prepare applicable parts of the semiannual followup status report in the format of Exhibit A.

b. A summary followup status report from AUDGENAV, CNO, CMC, CNR, and other designated focal points, will be provided to NAVINSGEN 2 weeks after the close of each of the semiannual reporting periods ending 31 March and 30 September. AUDGENAV will provide summary information on NAVAUDSVC audits. AUDGENAV will provide status on all audits and recommendations with potential

Enclosure (1)

18 DEC 1991

monetary benefits that were open, closed or undecided during the 6 month reporting period. AUDGENAV will include a listing of, and documentation supporting, all audits and recommendation numbers with monetary benefits closed during the 6 month reporting period with monetary benefits concurred in by management. CMC will provide summary information on NAFI and CPA audits. COMNAVSUPSYSCOM will provide summary information on CPA audits and internal audits by the Navy Exchange Service Command (NEXCOM).

c. Sections (1) through (4) of Part I of the Followup Status Report are required from commands identified in paragraph 2b. This is a narrative summary providing:

(1) An assessment of the overall status of followup efforts performed during the period.

(2) An explanation of what measures have been taken to provide verification, either through onsite review or other measures, to ensure that deficiencies in corrective actions are being identified.

(3) A discussion of any systemic followup weakness revealed during the period together with an explanation of what is being done to correct those problems.

(4) For possible inclusion in the IG Semiannual Report to the Congress and the Secretary of Defense, 3 to 5 examples of particularly noteworthy management actions completed during the period.

(5) NAVAUDSVC will provide a listing of all its audit reports issued during the period indicating report's number, title, date of issue and quantifiable monetary benefit estimates claimed by the auditors. Provide listing to NAVINSGEN 2 weeks after the close of each of the 6 month periods ending 31 March and 30 September (a listing of reports summarized in Part V is not required). Classified reports will be identified with an asterisk after the report number.

(6) NAVAUDSVC will provide a listing of all its audit reports over 18 months old from date of issue on which final action has not been completed indicating each such report's number, title, date of issue, agreed-upon monetary benefits not yet achieved, and an explanation for the reasons final action has not been taken (a listing of reports summarized in Part V is not required).

18 DEC 1991

d. Part II is a statistical summary of the status of management decisions on all NAVAUDSVC audit reports, to include decisions on quantifiable monetary benefit estimates claimed by the auditors. (NAVAUDSVC only)

e. Part III is a summary status of all NAVAUDSVC audit reports issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. (NAVAUDSVC only)

f. Part IV is a statistical summary of the status of management action on all NAVAUDSVC audit reports, to include status of quantifiable monetary benefit estimates agreed-to by management. (NAVAUDSVC only)

g. Part V is a statistical summary of the status of management action on other audit reports. (CMC, NEXCOM, Local Audit and other applicable commands)

h. Explanations for information required in either Parts I, II, III, IV, and V are as follows:

(1) Reporting Activity. Abbreviated name of DON component submitting the report.

(2) For Period Ending. Enter the last 2 digits of the calendar year and 0331 or 0930, as appropriate.

(3) Date of Transmittal. Enter the last 2 digits of the calendar year, 2 digits for the current month, and 2 digits for the day the report actually is forwarded to the IG.

(4) Point of Contact and Telephone Number. Name and telephone number of the official responsible for submitting the report. Enter last name, first name, middle initial (in that sequence).

(5) Monetary Benefits. Report all dollar amounts in thousands.

PART I
NARRATIVE SUMMARY

- (1) PROVIDE AN ASSESSMENT OF THE OVERALL STATUS OF FOLLOWUP EFFORTS PERFORMED DURING THE PERIOD.
- (2) PROVIDE AN EXPLANATION OF WHAT MEASURES HAVE BEEN TAKEN TO PROVIDE VERIFICATION, EITHER THROUGH ONSITE REVIEW OR OTHER MEASURES, TO ENSURE THAT DEFICIENCIES IN CORRECTIVE ACTIONS ARE BEING IDENTIFIED.
- (3) PROVIDE A DISCUSSION OF ANY SYSTEMIC FOLLOWUP WEAKNESSES REVEALED DURING THE PERIOD TOGETHER WITH AN EXPLANATION OF WHAT IS BEING DONE TO CORRECT THOSE PROBLEMS.
- (4) PROVIDE FOR POSSIBLE INCLUSION IN THE IG SEMIANNUAL REPORT TO THE CONGRESS AND TO THE SECRETARY OF DEFENSE, THREE TO FIVE EXAMPLES OF PARTICULARLY NOTEWORTHY MANAGEMENT ACTIONS COMPLETED DURING THE PERIOD.

Exhibit A to
Enclosure (1)

SECNAVINST 5200.34D
18 DEC 1991

PART II

STATUS OF MANAGEMENT DECISIONS ON CENTRALLY-DIRECTED REPORTS

UNDECIDED-BEGINNING OF PERIOD NUMBER	MONETARY BENEFITS 1/	ISSUED DURING PERIOD NUMBER	MONETARY BENEFITS 1/	DECIDED DURING PERIOD NUMBER	MONETARY BENEFITS AGREED 2/	MONETARY BENEFITS DISAGREED 3/	UNDECIDED-END OF PERIOD NUMBER	MONETARY BENEFITS 1/
REPORTS								

NOTES:

1. Use quantifiable monetary benefit estimates claimed by the auditors.
2. Use quantifiable monetary benefit estimates specifically agreed-to by management.
3. Difference between monetary benefit estimates claimed by auditors and those specifically agreed-to by management for reports decided.

PART III

CENTRALLY DIRECTED REPORTS ISSUED PRIOR TO THE REPORTING PERIOD WHICH REMAIN UNDECIDED

<u>Report Number, Title and Report Date</u>	<u>Explanation of the Reasons a Management Decision Has Not Been Made</u>	<u>Quantifiable Monetary Benefits Estimated by the Auditors</u>	<u>Timetable for Achieving Management Decision</u>
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SECNAVINST 5200.34D

18 DEC 1991

A-3
Exhibit A to
Enclosure (1)

PART IV

STATUS OF MANAGEMENT ACTION ON CENTRALLY-DIRECTED REPORTS

	<u>ACTION IN PROGRESS-BEGINNING OF PERIOD</u>		<u>DECIDED DURING PERIOD</u>		<u>ACTION COMPLETED-DURING PERIOD</u>		<u>ACTION IN PROGRESS-END OF PERIOD</u>	
	<u>NUMBER</u>	<u>MONETARY BENEFITS 1/</u>	<u>NUMBER</u>	<u>MONETARY BENEFITS 1/</u>	<u>NUMBER</u>	<u>MONETARY BENEFITS 2/</u>	<u>NUMBER</u>	<u>MONETARY BENEFITS 1/</u>
REPORTS	___		___		___		___	
RECOMMENDATIONS	___	_____	___	_____	___	_____	___	_____

NOTES:

1. Use quantifiable monetary benefits specifically agreed-to by management.
2. Monetary benefits shall be reported as completed (achieved) only after cognizant managers have completed the related corrective actions and have furnished confirmation, including documentation such as references to official budget or accounting data or, if such documentation is not feasible, an updated estimate and the rationale for that estimate.

Exhibit A to
Enclosure (1)

A-4

Reporting Activity: _____

For Period Ending: _____ (YYMMDD)
 Date of Transmittal: _____ (YYMMDD)
 Point of Contact: _____
 Telephone Number: _____

PART V

STATUS OF MANAGEMENT ACTION ON OTHER REPORTS

	<u>Action in Progress</u> <u>Beginning of Period</u>		<u>Decided During Period</u>		<u>Action Completed-During Period</u>		<u>Action in Progress</u> <u>End of Period</u>	
	<u>Number</u>	<u>Monetary Benefits 1/</u>	<u>Number</u>	<u>Monetary Benefits 1/</u>	<u>Number</u>	<u>Monetary Benefits 2/</u>	<u>Number</u>	<u>Monetary Benefits 1/</u>
<u>Non-appropriated Fund</u>								
<u>Audits (including Exchanges)</u>								
NEXCOM	_____	_____	_____	_____	_____	_____	_____	_____
MCNAFAS	_____	_____	_____	_____	_____	_____	_____	_____
<u>Other</u>								
Local Audit	_____	_____	_____	_____	_____	_____	_____	_____
<u>Audits by</u>								
<u>Non-Federal</u>								
<u>Auditors (CPA)</u>								
NEXCOM	_____	_____	_____	_____	_____	_____	_____	_____
MCNAFAS	_____	_____	_____	_____	_____	_____	_____	_____
Local Audit	_____	_____	_____	_____	_____	_____	_____	_____

NOTES:

1. Use quantifiable monetary benefits specifically agreed-to by management.
2. Monetary benefits shall be reported as completed (achieved) only after cognizant managers have completed the related corrective actions and have furnished confirmation, including documentation such as references to official budget or accounting data or, if such documentation is not feasible, an updated estimate and the rationale for that estimate.

A-5

Exhibit A to
 Enclosure (1)

SECNAVINST 5200.34D
 18 DEC 1991

18 DEC 1991

AUDIT FOLLOWUP PROCEDURES AND RESPONSIBILITIES
FOR FINDINGS AND RECOMMENDATIONS

1. General

a. Command/management shall analyze findings and recommendations and provide responses that are both prompt and constructive. All management actions shall be consistent with existing statutes, directives, and regulations. When management agrees with an AO's recommendation, corrective action will be initiated promptly and continued to completion within established time frames. When management responses to agreed-upon audit recommendations are overdue in excess of 60 days, NAVAUDSVC may change the status from open to undecided. Disagreement as to facts, conclusions, claimed monetary benefits or recommendations reported by AOs will be decided at the lowest level possible. Commanding officers are normally the final adjudicating authority for local audit reports. Issues contained in formal internal or external audits which are not decided at the audited activity level will be promptly forwarded via the appropriate chain of command until a decision is attained. Once a decision is attained, the audited activity is responsible for audit followup monitoring, status reporting and implementation. Any matters undecided at CNO, CMC, NAVCOMPT, CNR or DON Secretariat will be referred to UNSECNAV for adjudication (paragraph 5c, enclosure (2)). All DON decision actions will be completed within 6 months of the date of the final audit report. To ensure disputed/undecided issues are decided within the required 6 month time frame, the NAVAUDSVC will, if the issue remains undecided 60 days after audit publication, initiate formal audit adjudication correspondence. When monetary benefits are disputed and corrective action is pending completion, written decision memoranda will provide the status for both the disputed monetary benefits and the corrective action. All undecided issues not completed within the 6 month time period will be reported on Exhibit A, Part III. Decision agreements along with other agreed-upon recommendations of the report are subject to followup procedures.

b. Command management shall comment regarding concurrence or nonconcurrence (with rationale) on any finding/recommendation and each potential monetary savings/benefit. Comments will be provided for draft and final reports, and followup status reports, as appropriate. Should AO and audited command disagree on potential monetary benefits, the AO will acknowledge management's position in the final report. Specifically:

(1) If management states no monetary benefit will result from implementing a specific recommendation, the AO will not report the potential monetary benefit as realized until the

Enclosure (2)

18 DEC 1991

recommendation goes through the formal decision process. Such disputed potential monetary benefit will be reported as undecided in the audit report.

(2) If management concurs a potential monetary benefit will be realized, the recommendation will be treated as closed and the actual monetary benefit reported through the followup system. But if management disputes the total amount or a portion thereof, the audit recommended potential monetary benefit will be included in the report as undecided. If management agrees that a potential monetary benefit exists but an agreed-upon amount requires additional time to compute, the audit recommended potential monetary benefit will be included in the audit report as open with a reasonable management established target date, agreed to by the NAVAUDSVC, for providing a more reasonable monetary value, but not in the Semiannual Followup Status Report to NAVINSGEN.

(3) Once a recommendation is closed, management must report monetary benefits realized. However, if management is unable to determine realized monetary benefits due to an implementation schedule, or if management fails to comment on monetary benefits, the recommendation will remain open and followup will continue in order to ensure that the monetary benefits issue is addressed, and realized monetary benefits are determined as promptly as possible. The AO will continue to carry projected monetary benefits in the followup system as potential rather than realized until actual, or an agreed-upon estimate of realized monetary benefits is determined.

(4) Management's failure to comment on potential monetary benefits will be considered a nonconcurrence and the audit recommended potential monetary benefits will be included in the audit as undecided.

(5) Management's agreement to NAVAUDSVC claimed potential monetary benefits will be recognized in the audit report as agreed to.

c. In those cases where the AO reports and command/management concur that DON resources should be recovered from non-DON entities, headquarters commands and commanders, as applicable, will establish accounting and collection controls to ensure aggressive recovery efforts. Accounts receivable will be established and will be subject to collection action.

2. UNSECNAV

a. Serve as the official, independent of DON management and AO, to adjudicate undecided issues pertaining to disagreements over findings, recommendations and estimates of monetary benefits.

18 DEC 1991

b. Designate, if desired, an Assistant Secretary of the Navy (ASSTSECNAV) to decide or recommend a decision for disagreements between AO and management on undecided issues. UNSECNAV shall adjudicate any undecided issue within the 6 month decision period.

c. Submit semiannual followup status reports to IG, DOD per reference (a) and enclosure (1).

d. Assist in the decision process for differences between Navy elements and the IG, DOD.

e. Ensure corrective action is taken on agreed-upon IG, DOD, GAO, and internal audit findings and recommendations.

f. Ensure that documentation and assistance is provided to the IG, DOD when requested to ascertain the status of corrective action on agreed-upon IG, DOD and GAO findings and recommendations.

g. Serve as the audit followup official to ensure the effective execution of the DON audit followup program.

3. Secretariat, CNO, and CMC

a. Implement the policies and procedures specified in this instruction and reference (a) and, as necessary, provide further guidance or direction to subordinate commanders.

b. Ensure prompt and adequate corrective action by management and incorporate any savings into the DON budget.

4. NAVINGEN. Serve as the DON responsible entity for oversight of the audit followup process. In this capacity, NAVINGEN will:

a. Monitor undecided issues to ensure timely responses are provided to AOs and that AOs forward undecided issues to UNSECNAV in sufficient time to achieve adjudication within the 6 month decision period. For those undecided issues addressed to UNSECNAV, the NAVINGEN will act as decision facilitator.

b. Review, on a selective basis, the adequacy of corrective actions on audit report findings and recommendations, directing or initiating followup action as required (also see enclosure (4) for GAO and IG, DOD followup).

c. Submit DON Semiannual Followup Status Report to UNSECNAV.

d. Maintain information on AO's findings and recommendations which are worthy of special interest followup, and ensure corrective action is initiated.

18 DEC 1991

e. Monitor compliance DON-wide with audit followup requirements. This includes recommending selective onsite verification efforts to help determine whether corrective actions taken by managers were complete and timely, whether savings were achieved, whether collections or recoveries were made, and whether these actions corrected the problems reported by the auditors.

f. Evaluate information from reports of AOs, for trend analysis purposes to identify those problems of importance and/or frequency of occurrence which require greater management attention and those programs or systems vulnerable to fraud, waste, and abuse.

g. Review instances of noncompliance reported by AOs and take prompt measures to ensure corrective actions are carried out.

5. Audit/Management Staffs

a. Are responsible for relevancy, accuracy, completeness, and objectivity in their findings and recommendations. When a commanding officer directs local audit personnel to perform an audit, reports of the audit are subject to the requirements of reference (c). Statistical information (number of reports, related monetary benefits, and report status) will be compiled and forwarded as may be required by applicable parts of Exhibit A, enclosure (1).

b. Review command's final responses to the draft NAVAUDSVC audit report and forward the final audit report, which includes command's responses, to NAVINSGEN for necessary followup action and reporting. Advise the NAVINSGEN, through the final audit report that the response is considered adequate in terms of planned corrective actions, time schedules for completion of agreed-upon corrective actions and estimated monetary benefits to be achieved as the result of those actions. If the response is not considered adequate, refer the matter for decision in accordance with paragraph 5c.

c. Attempt to resolve undecided issues. Decision procedures for GAO and IG, DOD are specified in reference (a). The audit issue decision process will elevate undecided issues through the chain of command. When an issue remains undecided at the Echelon 1 level, either the command structure or AUDGENAV will elevate it to UNSECNAV. AUDGENAV will elevate NAVAUDSVC issues and the command structure will elevate all others. The individual commanding officer is the decision official for all recommendations of his/her local audit organization.

18 DEC 1991

d. Review and evaluate followup status reports provided by managers to determine whether corrective actions taken or planned are adequate, timely, and responsive. Assist followup focal points in assessing responsiveness of actions taken by management regarding agreed-upon audit recommendations.

e. Make selective onsite followup audits to ensure deficiencies reported as corrected have been corrected and monetary benefits have been achieved to the maximum extent possible. In selecting cases for followup audits, special attention shall be given to findings and recommendations involving significant monetary benefits. Report instances of noncompliance with agreed AO audit recommendations to the immediate superior in command for action and provide a copy of the report to NAVINSGEN and IG, DOD, Assistant Inspector General (Analysis and Followup), AIG(AFU) for oversight purposes.

f. Report instances of non-compliance with agreed-upon AO recommendations disclosed in command inspection reports. OPNAVINST 5040.7K specifically states that during the conduct of command inspections, the immediate superior in command or the immediate unit commander will evaluate the adequacy of actions taken by the inspected command on concurred-in recommendations made in reports of the NAVAUDSVC, GAO, and the IG, DOD and where warranted, document discrepancies. Instances of non-compliance with GAO and IG, DOD reports shall be reported to NAVCOMPT (NCB-5), copy to NAVINSGEN. NAVCOMPT (NCB-53), the focal point for GAO and IG, DOD audit followup, shall then apprise IG, DOD of the non-compliance and state what action DON has taken to review the instances of non-compliance and to implement corrective action. Reports of deficiencies in corrective actions identified in agreed-upon NAVAUDSVC recommendations shall be provided to AUDGENAV, copy to NAVINSGEN, for reopening and tracking in the audit followup system.

g. Establish controls to ensure matters referred from one AO to another are pursued to completion.

h. Comment regarding the actual monetary benefit realized upon closure of a recommendation that has a projected monetary benefit. AUDGENAV and the focal point will obtain documentation to demonstrate that an actual or agreed-upon estimate of realized monetary benefit amount has been determined before these benefits are reported as closed in the followup system.

6. DON Focal Points. Will be established at NAVCOMPT, CNO, CMC, and CNR. CNO and CMC will designate appropriate subordinate commands requiring focal points. DON focal points, including other designated subordinate commands, will:

18 DEC 1991

a. Serve as the headquarters point of contact to receive reports of AOs, distribute reports or findings to cognizant staff offices or subordinate commands for comment and action, and ensure adequacy and timeliness of response to audit findings and/or recommendations.

b. Followup on subordinates within their chain of command to ensure:

(1) Status reports are submitted to AOs per the provisions of enclosure (4).

(2) Undecided issues are promptly acted upon within the headquarters or referred up the chain of command for decision.

(3) Corrective action is taken on audit findings and recommendations.

c. Comment regarding concurrence or nonconcurrence (with rationale) on each finding/recommendation and each potential monetary benefit (draft audit, final audit report, and upon closure of a specific recommendation).

d. All significant recommendations should be verified within 1 year of recommendations closure regardless of when the recommendations were closed for followup tracking purposes. Recommendations are exempt from onsite verification only if they do not meet any of the significant categories mentioned below, or if the audit report contains a statement that explicitly states that the recommendations have been verified by the auditors. A recommendation is deemed significant when it fits at least one of the following categories: involving monetary benefits of \$250,000 for an Echelon 1 or 2 command and \$50,000 for Echelon 3 and below; a major systemic problem; or a safety/health problem. Commanders or activity heads shall semiannually provide NAVINSGEN onsite verification plans, plan updates, and verification results by 31 January and 31 July for reports issued in FY 88 and subsequent. Additionally, to facilitate onsite verification efforts by internal audit, inspection, or other oversight organizations, commands are to ensure that followup status data is readily available to those organizations.

e. Maintain fully documented formal records of all audit reports within their chain of command to include:

(1) Management analysis and explicit written position on each finding, recommendation, potential monetary benefit and overall report.

18 DEC 1991

(2) Command/activity responsible for implementation of agreed-upon corrective actions.

(3) Management's planned actions with time schedules for completion. When corrective actions are to be taken over an extended period of time (in excess of 1 year), management shall establish suspense dates for completion of major segments of the plan. Provide status reports to NAVAUDSVC, copy to NAVINSGEN.

(4) Status of agreed-upon open corrective action shall be determined and documented in followup files semiannually for all reports exceeding 1 year from date of issue. Exhibit B provides the format for reporting corrective action status. Provide information to NAVAUDSVC, copy to NAVINSGEN, 45 days prior to the reporting periods ending 31 March and 30 September.

(5) Determination when final action has occurred. Reports shall be recorded as closed in followup records only after cognizant managers have furnished explicit written confirmation that all agreed-upon corrective actions have been completed or onsite verification has so indicated, and documentation of this is contained in the followup files. Monetary benefits shall be recorded in followup systems as having been achieved only after cognizant managers have completed the related corrective actions and have furnished explicit written confirmation, including documentation such as references to official budget or accounting data, or if such documentation is not feasible, an updated estimate and the rationale for that estimate.

f. Maintain a manual or automated data base showing current status of all recommendations charged to the focal point. Command data base will be reconciled with NAVAUDSVC and NAVCOMPT (NCB-53) (GAO/IG, DOD audits) monthly. Discrepancies will be brought to the attention of NAVAUDSVC and NAVCOMPT (NCB-53).

g. Continue followup action to ensure adequate collection effort is made by the command/activity when management concurs with auditors that Government resources should be recovered.

h. Prepare the Followup Status Report per enclosure (1).

Reporting Activity: _____

For Period Ending: _____ (YYMMDD)

Date of Transmittal: _____ (YYMMDD)

Point of Contact: _____

Telephone Number: _____

OPEN CORRECTIVE ACTION STATUS REPORT

<u>Audit Report Number</u>	<u>Title</u>	<u>Date of Issue</u>	<u>Agreed Upon Monetary Benefits Not Yet Achieved</u>	<u>Reason Action Not Completed</u>
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Reason Action Not Completed

1. Long-term corrective action on schedule.
2. Management action slipped significantly from originally estimated completion date.
3. Formal administrative or judicial appeal.

Exhibit B to
Enclosure (2)

SECNVINST 5200.34D
18 DEC 1991

18 DEC 1991

DEFINITIONS

1. Abuse. Improper or excessive use of authority or government resources in the normal conduct of operations. It includes, but is not limited to, conflicts of interest not involving prosecutable fraud, misuse of government property and substantial violations of program directives, or poor management practices which seriously affect program accomplishment.
2. Agreed-Upon Recommendation. A recommendation for management action that is set forth in the audit report and that is approved explicitly by DON management.
3. Audit. An official examination or verification by an audit organization of an activity's financial records, programs and operations. The review is performed or supervised by professionally qualified auditors in full conformance with GAO audit standards.
4. Audit Coordination. Assistance by the responsible focal point to the auditing agency and the audited command to facilitate the audit process.
5. Audit Development Phase. Those elements of the audit process from announcement to issuance of the final report.
6. Audit Facilitator. A non-decision making or intermediary role performed by NAVINSGEN when a dispute exists between the AO and management on an audit recommendation that has been elevated to UNSECNAV for decision.
7. Audit Followup. A process by which responsible management action is taken to decide problems documented in audit findings and necessary management action is taken to adequately complete open audit recommendations. Audit followup officially begins when the audit is published and officially ends on the date of explicit written confirmation of completion of required management action or, if appropriate, when all onsite verification is completed.
8. Audit Followup Phase. Those elements of the audit process from issuance of the final report through onsite verification, if required, of the actual implementation of the specific audit recommendation.

18 DEC 1991

9. Audits by Non-Federal Auditors. Work done by auditors (e.g., CPA firms), normally under Defense contracts, in examining financial statements and in reviewing: (a) compliance with laws and regulations, (b) economy and efficiency of operations, and (c) effectiveness in achieving program results as described by government auditing standards. The AUDGENAV is responsible for evaluating proposed audit contracts before solicitation and reviewing the completed work in accordance with SECNAVINST 7510.7D.

10. Audit Organization (AO). An auditing organization is the agency conducting the audit. External organizations are: GAO, the IG, DOD Assistant Inspector General for Auditing (AIG(A)), and DCAA. NAVAUDSVC is DON primary internal audit organization. Other DON audit organizations include the Marine Corps Non-Appropriated Fund Audit Service (MCNAFAS), NEXCOM and commands having local audit staffs.

11. Audit Oversight. The monitoring of actions taken by focal points in administering and managing the audit process to ensure focal point efficiency and effectiveness.

12. Audit Process. All phases and aspects of an audit from announcement to completion of and onsite verification of the actual implementation of the specific audit recommendation. (Responsibility of management, the audit agency, and the responsible focal point).

13. Audit Report. The results of an audit published by an audit organization containing findings and recommendations. Some audit reports may be informational and contain no recommendations.

14. Closed Audit. Audit report for which necessary management action on findings, recommendations and claimed monetary benefits is decided, and corrective action has been completed and documented.

15. Collateral Action Office (CAO). The subordinate office tasked by the Primary Action Office (PAO) or IG, DOD to provide information or a response to GAO or IG, DOD findings and recommendations.

16. Decided. An agreement has been reached between management and auditors on previously undecided findings, recommendations or monetary benefits or a decision has been made by a senior official settling the disagreement. In the case of GAO reports, disputed findings, recommendations, or monetary benefits are considered decided once an official DOD response has been made to the final report.

18 DEC 1991

17. Deficiency. Any instance reported by auditors concerning non-compliance with requirements of law and directives; unauthorized damage, destruction or reduction in value of government resources; unreasonable consumption, underuse, inefficient or ineffective use or unauthorized disposition of government resources; and incurrence of unnecessary costs.

18. Draft Audit Report. The initial findings and recommendations which generally are addressed to the audited activity and require a management response. A draft audit report is not subject to followup actions under this instruction.

19. Final Action. The completion of all actions that management has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision has been made.

20. Finding. A statement made by an audit organization on the basis of information developed about an organization, program, activity, function, condition or other matters which were analyzed or evaluated.

21. Focal Point. The entity within the command structure charged with audit facilitation and audit followup responsibilities.

22. Fraud. For this instruction, includes theft and/or embezzlement, bribery, gratuities, conflicts of interest, and violations of antitrust laws, and false statements and/or false claims in the following areas: pay and allowances; procurement; property disposal; commissary and/or subsistence; non-appropriated funds; Civilian Health and Medical Program of the Uniformed Services; Foreign Military Sales; and personnel matters.

23. Funds Put to Better Use. The financial impact of a recommendation by the auditors that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including:

- a. reductions in outlays;
- b. deobligation of funds from programs or operations;
- c. withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
- d. cost not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;

18 DEC 1991

e. avoidance of unnecessary expenditures noted in preaward reviews of contracts or grant agreements; or

f. any other savings which are specifically identified.

24. Government Resources. Any and all property; real, personal and/or intangible owned, leased, or controlled by the Government of the United States.

25. Internal Audit. An independent review and evaluation conducted by the NAVAUDSVC of the economy, efficiency and effectiveness with which managerial responsibilities (including financial, operational and support activities) are being carried out.

26. Local Audits. Audits performed by the commanding officer's local audit staff established in accordance with SECNAVINST 7510.9. This command audit function must perform audits following the policies and standards of the AUDGENAV. Upon request, local audit reports are subject to release to the AUDGENAV or other investigators.

27. Management Decision. The evaluation by management of the findings, recommendations, and monetary benefits included in an audit report and the issuance of a final decision by management concerning its response including actions concluded to be necessary.

28. Military Exchange Audit. Audit of DON exchange systems by an audit organization authorized to do so.

29. Monetary Benefits. Funds put to better use.

30. Onsite Verification. A visual review to determine if agreed-upon audit followup action was taken and agreed-upon monetary benefits, if any, were realized.

31. Open. A recommendation, finding, monetary benefit or action for which agreement has been achieved at all levels, but for which action has not been completed.

32. Primary Action Office (PAO). The organization tasked by IG, DOD to respond to GAO on behalf of the Secretary of Defense. For AIG(A) reports, the organization to which an AIG(A) recommendation is addressed.

33. Quick Reaction Report. Interim reporting of situations demanding immediate action to prevent, correct, or reduce a serious problem that cannot be addressed expeditiously enough by

18 DEC 1991

normal audit reporting methods. Such reports include specific recommendations and are normally addressed to the lowest level that is capable of taking the necessary corrective action. The originating audit organization requests management comments in a time frame that allows elevation of the matter to higher authority before an adverse effect occurs if a responsive reply is not received.

34. Recommendation. A proposed suggestion by an audit organization to remedy discrepancies or shortcomings as specified in the audit report findings.

35. Repeat Finding. The same condition and cause which were noted in a previous audit.

36. Significant Recommendation. A recommendation involving monetary benefits of \$250,000 for an Echelon 1 or 2 command, involving monetary benefits of \$50,000 for Echelon 3 and below, a major systemic problem, or a safety/health problem. Significant recommendations should be verified onsite after action is completed.

37. Technical Authority (TA). An office within CNO having the technical expertise in a management function or operational warfare area.

38. Undecided. Management has not yet commented on a DOD audit organization's findings, recommendations, or estimated potential monetary benefits, or does not concur and the DOD audit organization does not agree with the management position. Also applies when management and the DOD audit organization are attempting to decide disagreements at lower levels, or the disagreement is being submitted to a senior official for decision.

39. Waste. The extravagant, careless or needless expenditure of government funds, or the extravagant, careless, or needless consumption of government property.

18 DEC 1991FOLLOWUP PROCEDURES FOR AUDIT ORGANIZATION REPORTS1. Followup Procedures Applicable to GAO and IG, DOD Reports.

NAVCOMPT has designated the Office of Budget and Reports (NCB) as the focal point responsible for DON liaison with GAO and IG, DOD. The DON focal point for GAO and IG, DOD audit followup is NAVCOMPT (NCB-53). NAVCOMPT (NCB-53) will: (1) act as the DON focal point when a disagreement occurs in the acceptance or implementation of a recommendation; and (2) provide documentation and assistance requested by IG, DOD to facilitate the review and evaluation of DOD replies to GAO reports. Audit followup policy and procedures applicable to GAO, and IG, DOD audits are contained in NAVCOMPT Instruction 5740.4. Requests for followup and status information originate from the IG, DOD. The procedure is:

a. When the DON is the PAO/CAO, NAVCOMPT (NCB-53) will establish internal due dates as required to meet the deadline established by IG, DOD, and designate an Action Office (normally the same office which prepared the DON comments on the GAO and IG, DOD report) to provide the followup information requested.

b. The ASSTSECNAV responsible for the subject area for action will receive a copy of the information forwarded by NCB to IG, DOD concerning any request for status of followup actions on GAO and IG, DOD reports. For issues considered to be significant, the appropriate ASSTSECNAV will sign the transmittal memorandum. If the course of action in the proposed audit followup response is contrary to the agreed-upon action outlined in DON comments on the final report, the audit followup response which changes the DON's agreed-upon action must be signed by the ASSTSECNAV who signed DON comments on the final report.

c. DON responses to GAO and IG, DOD open recommendations will be provided only upon specific written request. NAVCOMPT (NCB-53) will ensure that requests for information by the IG, DOD are tasked to the appropriate DON office in order to respond within the requested time frame. The cognizant IG, DOD officials are AIG(A) and AIG(AFU).

d. NCB will provide a printout to DON focal points (called Action Offices by NCB) and Echelon 2 commands, as appropriate, listing on-going GAO and IG, DOD audits and open recommendations. These listings shall be reconciled with command data base on a monthly basis.

18 DEC 1991

2. Followup Procedures for NAVAUDSVC Audits. NAVAUDSVC maintains a data base for the recording and followup of all findings, recommendations, and monetary benefits developed by internal audit. In this data base, as well as throughout the entire followup reporting system, findings, recommendations, and monetary benefits are classified as open, closed, and undecided. NAVAUDSVC will provide a printout from this data base each month to DON focal points and their designated Echelon 2 focal points listing recommendations as open, closed, undecided or overdue (30 days or more). DON and designated Echelon 2 focal points will reconcile these data sheets with command data base monthly, notifying the NAVAUDSVC of any discrepancy. The focal point will maintain formal records of audit reports detailing the action taken on audit findings, recommendations and agreed-upon monetary benefits. The focal point shall ensure the following information is provided to NAVAUDSVC, copy to NAVINSGEN, within 30 days after publication of the final report or the action described below:

a. The date action was completed on a recommendation and monetary benefits.

b. A revised target date for recommended action when the original target date provided during the draft audit process cannot be met. The burden for justifying the need to obtain a revised target date will be upon the initiating command or DON component, which must demonstrate the need to revise the target date and provide supporting documentation to NAVAUDSVC. If the initiator does not sufficiently justify and/or document the need to revise the target date, the NAVAUDSVC will refer those recommendations past target date without justification to the NAVINSGEN.

c. A modification of previously agreed to action, with sufficient detail to enable NAVAUDSVC to determine if the finding can be closed.

d. A reversal of a previous agreement to take action with a response which clearly states the reason for the change.

e. A final determination of any potential monetary benefits previously undetermined in the draft audit process.

3. Followup Procedures for NAFI and Military Exchange Audits. Under the CNO, NEXCOM is responsible for followup on its findings and recommendations. COMNAVSUPSYSCOM will monitor followup on exchange audits conducted by NEXCOM. CMC will followup on NAFI and exchange audits conducted by MCNAFAS. COMNAVSUPSYSCOM and CMC will provide information to NAVINSGEN as required for the Semiannual Followup Status Report, enclosure (1).

18 DEC 1991

4. Commanding officers will ensure "open" local audit findings and recommendations are tracked/monitored until action is completed. Local audit followup on unaccomplished audit recommendations will be made at regular intervals to ensure accomplishment or decision within 6 months following completion of the audit. Commanding officers must provide the status of each finding and recommendation including monetary benefits directly to the NAVAUDSVC 45 days prior to the reporting periods ending 31 March and 30 September for oversight purposes.

5. Followup and Oversight Responsibilities

a. NAVAUDSVC:

Followup - Focal Points
 - NAVAUDSVC
Oversight - NAVINSGEN

b. GAO and IG, DOD Audits:

Followup - NAVCOMPT, who has assigned NCB-53 the
 responsibility
 - Focal Points (DON Action Offices)
 - IG, DOD
Oversight - NAVINSGEN

c. Contract audits conducted by DCAA:

Followup - ASSTSECNAV RD&A/APIA-PP
Oversight - NAVINSGEN

d. NAFI Audits/Fiscal Oversight & Management Reviews:

Navy Lodges and Exchanges
Followup - NEXCOM
Oversight - NAVINSGEN, NAVSUP*

Navy MWR (Clubs, Messes/Recreation)
Followup - PERS-65 and Type Commanders
Oversight - BUPERS, Fleet Commanders-in-Chief,
 - NAVINSGEN

USMC NAFI/Exchanges
Followup - CMC
Oversight - CMC*, NAVINSGEN

*COMNAVSUPSYSCOM and CMC will provide information to NAVINSGEN as required for the Semiannual Followup Status Report, enclosure (1).

18 DEC 1991

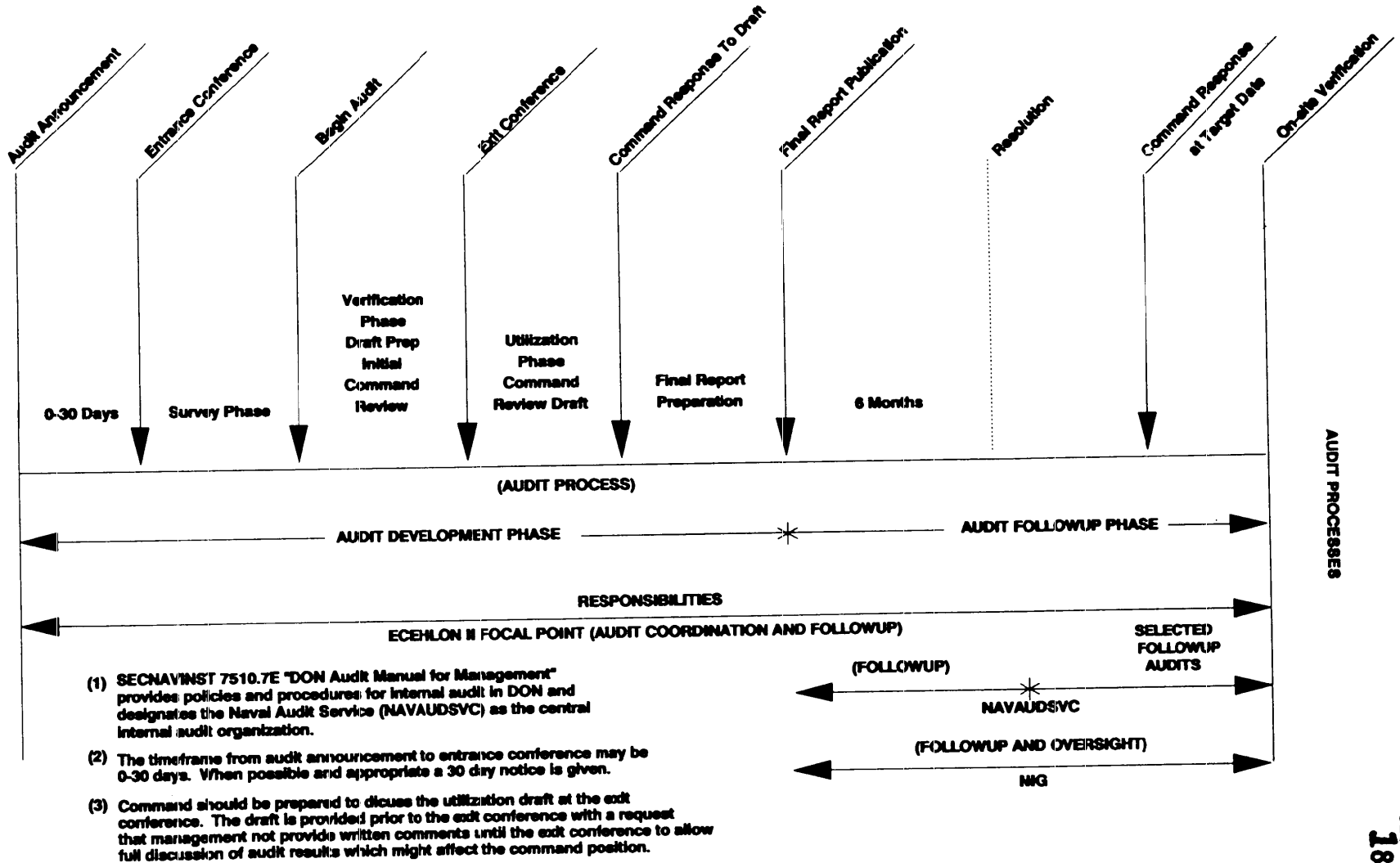
e. Local Audits:

Followup: Commanding Officer
Oversight: NAVAUDSVC
NAVINGEN

f. Audits by Non-Federal Auditors (CPA)

Followup: CMC
NEXCOM
Commanding Officer
Oversight: NAVAUDSVC
NAVINGEN

**TIMELINE FOR AUDIT PROCESS AND RESPONSIBILITIES
NAVAL AUDIT SERVICE AUDIT REPORTS**

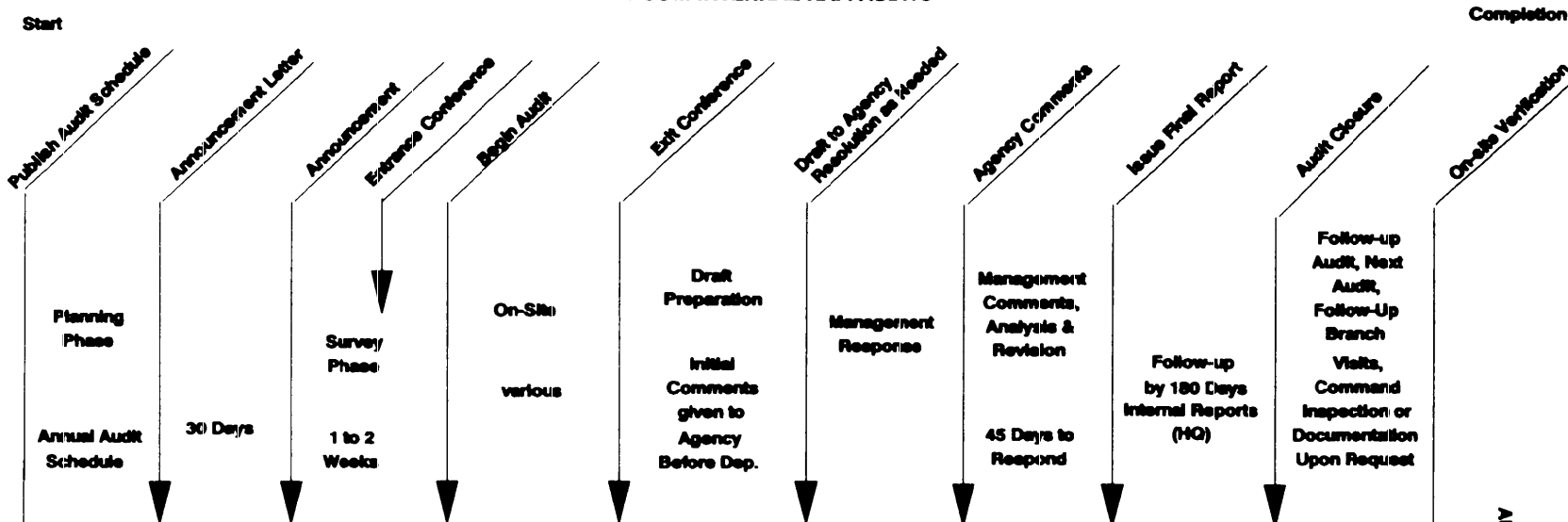


ENCLOSURE (5)

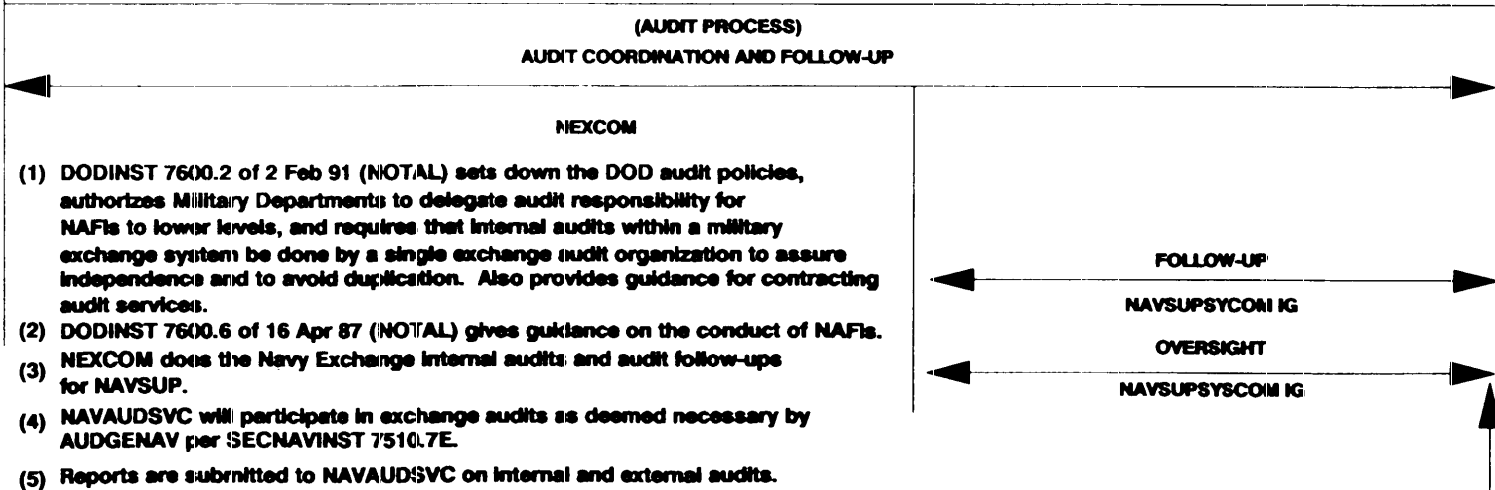
SECNAVINST 5200.34D
18 DEC 1991

TIMELINE FOR AUDIT PROCESS AND RESPONSIBILITIES **NEXCOM INTERNAL NAFL AUDITS**

ENCLOSURE (3)



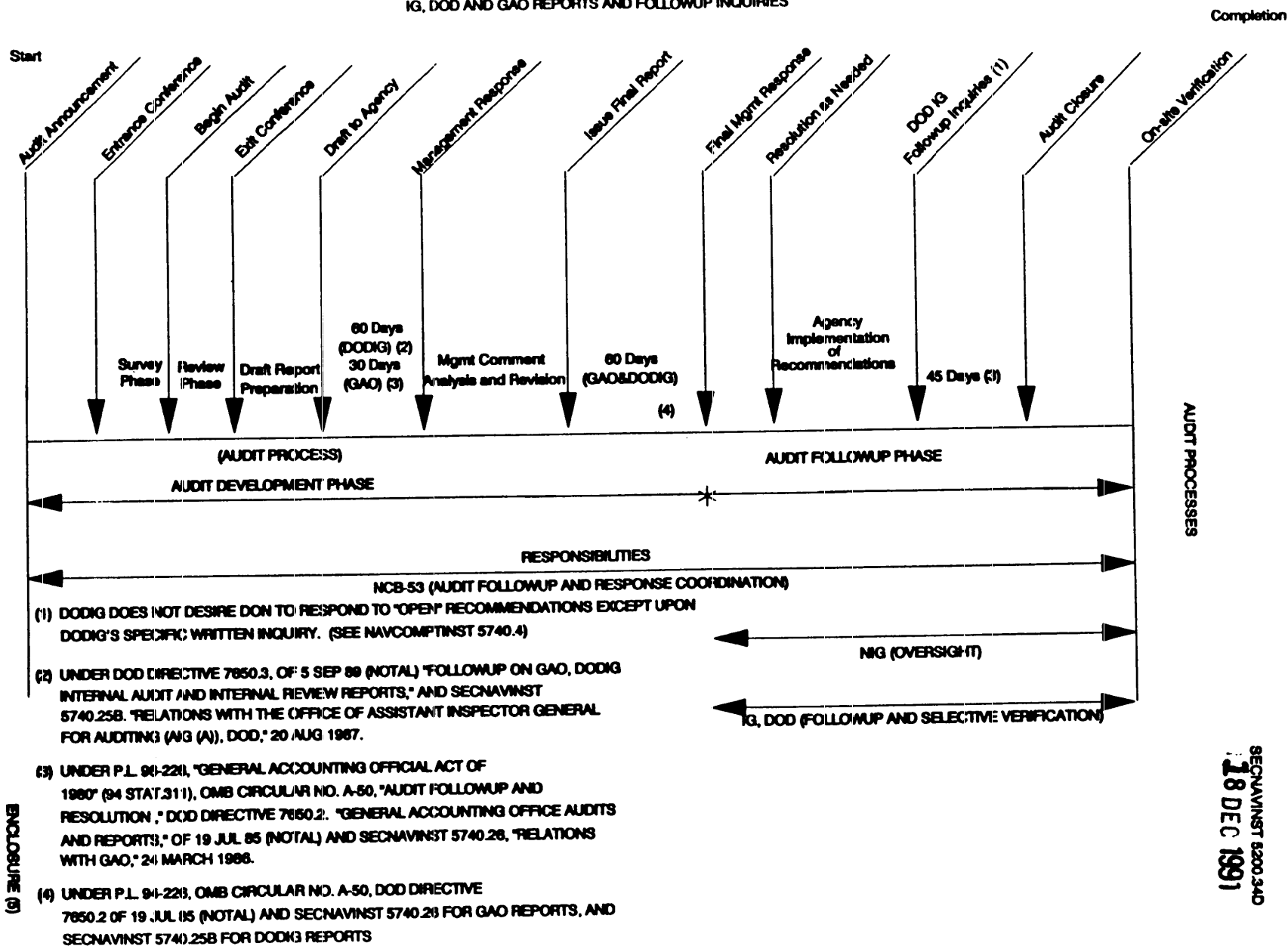
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AUDIT PROCESSES

NIG
OVERSIGHT

TIMELINE FOR AUDIT PROCESS AND RESPONSIBILITIES
IG, DOD AND GAO REPORTS AND FOLLOWUP INQUIRIES



SECNAVINST 5200.34D
18 DEC 1991

**TIMELINE FOR AUDIT PROCESS AND RESPONSIBILITIES CONTRACT AUDIT
REPORTS AND FOLLOWUP**

ENCLOSURE (5)

